Canada Council for the Arts | Conseil des arts du Canada

Quarterly

Financial Report

Unaudited

Period ended June 30, 2015
Published August 31, 2015

Bringing the arts to life
De l'art plein la vie

Canada Council for the Arts | Conseil des arts du Canada

Management Discussion and Analysis

Quarterly Report

Period ended June 30, 2015
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Bringing the arts to life
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INTRODUCTION

This narrative discussion relates to the financial results of the Canada Council for the Arts (the Council) for the three-month period ended June 30, 2015 as set out in the accompanying unaudited quarterly financial statements. Those statements are disclosed in accordance with the requirements of section 131.1 of the Financial Administration Act and are prepared in accordance with Canadian Public Sector Accounting Standards (PSAS) as promulgated by the Chartered Professional Accountants (CPA) of Canada.

Management is responsible for the information presented in the unaudited quarterly financial statements and in this narrative discussion, both of which have been reviewed and endorsed by the Audit and Finance Committee of the Council's Board of Directors. In assessing what information is to be provided in the narrative discussion, management applies the materiality principle as guidance for disclosure. Management considers information material if it is probable that its omission or misstatement, judged in the surrounding circumstances, would influence the decisions of the primary user of this information, the Government of Canada.

This discussion contains "forward-looking statements" that reflect management's expectations regarding the Council's results of operations. These statements are not facts but only estimates based upon information and assumptions that are currently available to, or made by, management and which are subject to a number of risks and uncertainties. These and other factors may cause actual results to differ substantially from the expectations stated or implied in the forward-looking statements.

The Financial Administration Act does not require the Council to file a Corporate Plan with the Government of Canada. Therefore, neither this narrative discussion nor the unaudited quarterly financial statements disclose a comparison of results against the Council's Corporate Plan. As required by PSAS, the unaudited quarterly financial statements provide comparisons to the Council's approved annual budget for the year.

HIGHLIGHTS

On June 3, 2015, the Canada Council for the Arts announced its six new granting programs as a central element of its new funding model for the arts in Canada. The Council released six videos outlining the overarching objectives for each of the programs: Explore and Create; Engage and Sustain; Creating, Knowing and Sharing Aboriginal Art; Renewing Artistic Practice; Arts Across Canada; and Arts Abroad. These new programs, which will be more flexible and artist-centred, with a simpler application process, will enable artists (and ultimately, the Council) to respond proactively to current trends and issues in the arts and to maximize the social, creative and economic impact of the arts in Canada for the benefit of all Canadians. The Council remains committed to its core principles of artistic excellence, peer assessment and to equity, including support of Aboriginal arts, Official Languages in minority communities, cultural and regional diversity, and Deaf and disability arts. Further details of the programs will be released before the end of 2015, a web portal for applicants will be launched in December 2016, and the programs will be officially launched in April 2017 to coincide with the Canada Council's 60th anniversary and Canada's 150th anniversary.

Canada Council Director and CEO Simon Brault highlighted the Council's work and future plans at several public events in the last quarter, including:

- An inspired future for the arts, a speech at the Canadian Arts Summit, April 10, 2015, in Toronto
- Re-Imagining Canada's future through the arts, a lecture to students of MacEwan University's Arts and Cultural Management program, May 4, 2015, in Edmonton
- Supporting the arts: a driving force for prosperity and influence in the 21st century, a speech at CORIM (Montreal Council on Foreign Relations), May 12, 2015, in Montreal

The Canada Council's Âjagemô space opened a new exhibition in May 2015, entitled Ontario in Âjagemô. The exhibition featured the works of several Ontario artists from the Canada Council Art Bank collection to investigate the distinctness of Ontario art. It was presented in association with the National Arts Centre's Ontario Scene—the most recent iteration of a biennial festival showcasing the artistic talents and culture of the many different regions of Canada.

From June 4 to 6, 2015, the Canadian Commission for UNESCO (CCUNESCO), which is part of the Canada Council, hosted its Annual General Meeting with a focus on cultural cohesion and the role of culture in bridging divides. The meeting, held at the Canadian Museum of History and the Canadian War Museum, included a keynote address from the Right Honourable Adrienne Clarkson (former Governor General of Canada) and a performance at the National Arts Centre. The AGM supported the implementation of CCUNESCO's Strategic Plan 2014-2021 and marked the 70th anniversary of UNESCO.

A special selection of artworks from the Canada Council Art Bank collection was installed at Garrison Petawawa's Joint Personnel Support Unit and Integrated Personnel Support Centre. The display, dedicated to the memory of Mr. Joseph Rotman, former Chair of the Board of the Canada Council for the Arts (2008-2015), was inaugurated on June 16, 2015 in a ceremony attended by Her Excellency Sharon Johnston, Mrs. Sandra Rotman, and Canada Council Director and CEO Simon Brault.

Net Results

	Three months ended June 30			
(in thousands of dollars)	2015	2014	Increase/ (Decrease)	% change
Revenue	1,655	1,198	457	38%
Expenses	(101,327)	(93,855)	7,472	8%
Government funding	82,000	78,000	4,000	5%
Deficit for the period	**(17,672)**	**(14,657)**	**3,015**	

Overview of the First Quarter Net Results

The deficit for the quarter was $17.7M, an increase of $3.0M over the first quarter deficit of the previous fiscal year. This increase is related to a higher distribution of grants for the quarter of $8.0M compared to the comparative period last year which is due to timing in the approval of grant expenses. This increase in expenses was mostly offset by a $4.0M increase in the drawdown of government funding for the period to cover cash-flow requirements.

The Council will continue to monitor its financial results with the aim of achieving the target projections set out in its original balanced budget.

IMPORTANT CHANGES

Special Funding Initiative

On April 29, 2015, the Canada Council for the Arts, the J.W. McConnell Family Foundation and the Circle on Philanthropy and Aboriginal Peoples in Canada (The Circle) announced the launch of {Re}conciliation, a unique initiative to promote artistic collaborations between Aboriginal and non-Aboriginal artists, investing in the power of art and imagination to inspire dialogue, understanding and change. The Council is administering this initiative and issued a call for proposals on May 25, 2015 for interested artists and arts organizations to submit proposals for project funding up to $75,000. The partnership highlights Council's recent commitment to building a vital and engaged new Aboriginal arts program as part of its new funding model. It is expected that the successful projects will be announced in the fall 2015, and the works created will be completed in 2016.

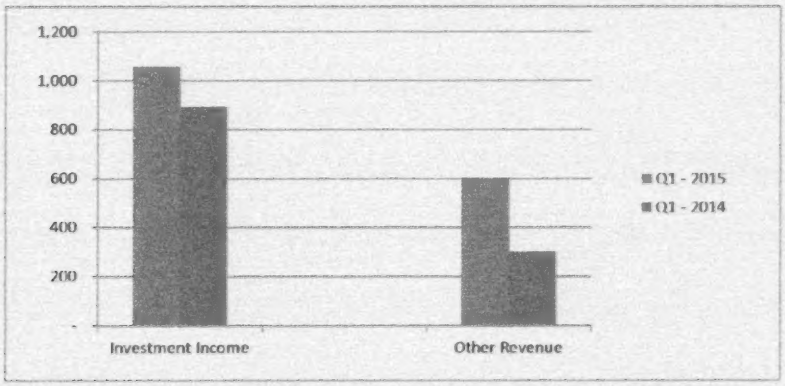
Leadership and Governance

On July 31, 2015, the Canada Council welcomed the appointment of Pierre Lassonde as the new Chair of its Board of Directors. Mr. Lassonde assumes the role for a 5-year term.

FINANCIAL RESULTS

The following section provides further detail and explanation of financial results presented in the quarterly financial statements:

Revenue



Net Realized Investment Income

Net investment income was 16% higher than same period last year but is still forecasted to be aligned with the budget.

Other Revenue

The other revenues for the quarter are higher than last year mainly due to $150K received from the J.W. McConnell Family Foundation related to the {Re}conciliation initiative and a contribution of $76K for the Commission Internationale de Théâtre Francophone.

Expenses

(in thousands of dollars)	June 30, 2015	June 30, 2014	Increase/ (Decrease)
Grants, prizes and author payments	92,915	84,934	7,981
Transfer program delivery	3,954	4,065	(111)
Arts community services	303	558	(255)
Net Art Bank results	123	126	(3)
Canadian Commission for UNESCO	538	552	(14)
General administration	3,494	3,620	(126)
Total	**101,327**	**93,855**	**7,472**

Grant expenses are higher compared to the same period last year due to the timing of competition deadlines and approval of results by the Board which differ from the prior year. The Council expects the annual grants expenses to be aligned with the original budget of $154.8M for the year.

The arts community services costs have decreased due mainly to a reduction in Canadian Arts Data/Données sur les arts au Canada (CADAC) related costs as a result of efficiency savings which were formalized in a new funding agreement effective April 1st, 2015.

Financial Assets

(in thousands of dollars)	June 30, 2015	March 31, 2015	Increase/ (Decrease)
Cash equivalents	45,651	1,226	44,425
Accounts receivable	2,334	2,732	(398)
Portfolio investments	341,559	344,491	(2,932)
Total	**389,544**	**348,449**	**41,095**

Cash Equivalents

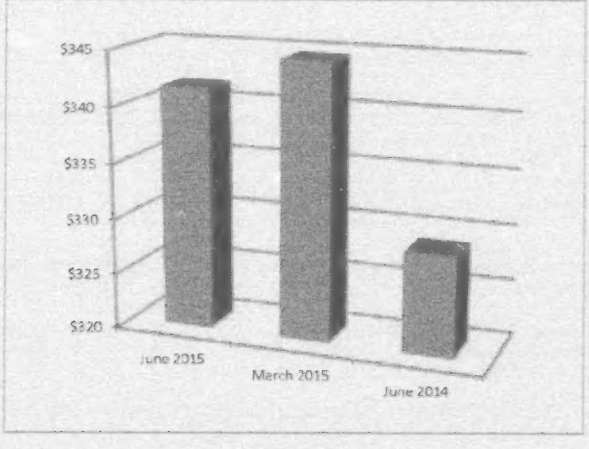
The increase of $44.4M in Cash Equivalents is due to the fact that while Parliamentary appropriations had been received, the related grants payments to recipients will occur in the subsequent quarter. This timing difference is consistent with the increase in Grants payable under the Liabilities section as of June 30, 2015.

Accounts Receivable

The decrease of $0.4M arises primarily from the receipt of $0.5M related to the final leasehold inducement payment due from the Council's landlord which was recorded at year-end.

Portfolio Investments

The total market value of the portfolio as at June 30, 2015 was $341.6M of which $83.2M was externally restricted. This represents a decrease of $2.9M since March 31, 2015 but an increase of $12.7M since June 30, 2014.



The total fund generated an absolute negative return of 0.8% for the quarter which was lower than the benchmark return by 0.2%. The contributor to this negative return is directly related to the Canadian and Global Equities/Canadian Bonds' markets which posted negative results for the quarter (-1.4%, -1.1% and -1.6% respectively). Those negative results were partially offset by the performance of our Real Estate managers, 2.9%, and Infrastructure managers, 3.1%, compared to their respective benchmark indices of 1.5% and 1.8% for the same quarter.

Since January 1st, 2015, the total fund generated an absolute return of 5.6% which was lower than the benchmark by 0.1%. The main contributors for this year-to-date return were the performance of the Global Equity managers, 9.6%, and the Infrastructure managers, 11.0%.

Liabilities

(in thousands of dollars)	June 30, 2015	March 31, 2015	Increase/ (Decrease)
Bank indebtedness	458	-	458
Grants, prizes and author payments payable	72,915	28,751	44,164
Accounts payable and accrued liabilities	2,241	2,499	(258)
Deferred revenues	7,082	7,061	21
Employee future benefits	2,675	2,592	83
Deferred Parliamentary appropriations	18,000	-	18,000
Externally restricted contributions	41,758	42,956	(1,198)
Total	**145,129**	**83,859**	**61,270**

Grants, prizes and author payments payable
The increase of $44.2M in comparison to the value as at March 31, 2015 arises from grants accrued which had not been paid by the end of the three month period.

Accounts payable and accrued liabilities
The decrease of $0.3M in comparison to the value as at March 31, 2015 is mainly due to a reduction of $0.7M in commercial invoices due to the timing of the payment schedule which was slightly offset by an increase of $0.3M in accrued salaries and benefits for this period also as a result of timing.

Deferred Parliamentary appropriations
The increase of $18.0M arises from the receipt of the July 2015 drawdown in Parliamentary appropriations at the end of this period which will be recorded as revenue in the following quarter.

Externally Restricted Contributions
The decrease of $1.2M is directly linked to the decrease in fair value of the externally restricted portion of the portfolio investments for the quarter.

Non-Financial Assets

(in thousands of dollars)	June 30, 2015	March 31, 2015	Increase/ (Decrease)
Tangible capital assets	7,324	7,524	(200)
Art Bank assets	19,425	19,425	-
Musical instruments	1	1	-
Prepaid expenses	65	180	(115)
Total	**26,815**	**27,130**	**(315)**

Art Bank Assets
The Council owns approximately 17,500 works of contemporary Canadian art within its Art Bank collection. At June 30, 2015 the appraised value of the Art Bank assets was approximately $71M. The Council insures its Art Bank assets for their estimated appraised value.

Musical Instruments
The Council operates a Musical Instrument Bank and it currently owns a fine cello bow and nine prestigious musical instruments. In addition, the Council manages thirteen instruments on loan. The appraised value of its musical instruments as at June 30, 2015 was $41.8M US. These are included on the Statement of Financial Position at a nominal value. The Council insures the musical instruments at their appraised value.

RISK MANAGEMENT

Corporate Risk

In line with good governance practices, the Council updates and revises its Corporate Risk Profile on an ongoing basis, identifying and including any changes in the Council's risk environment. In order to address the risks within the Council's corporate risk profile that are outside the Council's appetite for risk, effective risk mitigation strategies and action plans are developed, under the oversight of assigned members of executive management, to reduce the risk exposure to an acceptable and manageable level.

The Audit and Finance Committee endorsed the Risk Mitigation Strategies Plan presented by executive management at its November 2014 meeting. Executive management monitors progress of the implementation of these mitigation strategies and reports results to the Audit and Finance Committee on a regular basis.

Financial Risk

The Council is exposed to a variety of financial risks mainly through its investment portfolio. The Council's investment portfolio is primarily exposed to price risk, interest rate risk and currency risk. The Investment Committee reviews the Council's investment policy annually and recommends changes in the asset mix allocation, if necessary, to the Board. This policy sets out the long term investment objectives and guidelines under which the portfolio is to be invested.

USE OF PARLIAMENTARY APPROPRIATION

The following information is intended to supplement that provided elsewhere in this discussion regarding the Council's use of its Parliamentary appropriation.

The Council receives its main funding through an appropriation voted by Parliament. The Council records the Parliamentary appropriation received in the period as revenue in the Statement of Operations. The Council submits a monthly cash flow analysis to the Department of Canadian Heritage to justify its monthly drawdown cash requirements. The cash-flow requirements may not necessarily match the timing of expenses reported in the Statement of Operations. The monthly drawdown is invested in a short-term pooled fund managed by a professional investment manager from which the Council draws its daily cash requirements.

The Parliamentary appropriations approved and received by the Council during the first quarter were as follows:

(in thousands of dollars)	June 30	
	2015	2014
Approved Annual Operating funding		
Vote 1 - Operating costs	182,097	182,093
Parliamentary appropriations for operating expenses recorded in the Statement of Operations for the three month period	(82,000)	(78,000)
Deferred - July 2015 Parliamentary appropriations	(18,000)	(19,000)
Balance of operating funding to be received	**82,097**	**85,093**

Canada Council for the Arts | Conseil des arts du Canada

Quarterly

Financial Statements

Unaudited

These financial statements for the quarter ended June 30, 2015 have not been audited or reviewed by our Auditor

Bringing the arts to life
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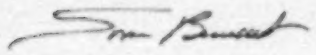
Management's Responsibility for Financial Reporting

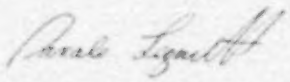
Management is responsible for the preparation and fair presentation of these quarterly financial statements in accordance with the Treasury Board of Canada Standard on Quarterly Financial Reports for Crown Corporations and for such internal controls as management determines is necessary to enable the preparation of quarterly financial statements that are free from material misstatement. Management is also responsible for ensuring all other information in this quarterly financial report is consistent, where appropriate, with the quarterly financial statements.

Based on our knowledge, these unaudited quarterly financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of the corporation, as at the date of and for the periods presented in the quarterly financial statements.

August 31, 2015



Simon Brault, O.C., O.Q., FCPA, FCGA
Director and Chief Executive Officer



Pascale Legault, CPA, CA
Chief Financial Officer

Statement of Financial Position

(Unaudited)

(in thousands of dollars)

	June 30 2015	March 31 2015
FINANCIAL ASSETS		
Cash equivalents	$ 45,651	$ 1,226
Accounts receivable	2,334	2,732
Portfolio investments (Note 3)	341,559	344,491
Total financial assets	389,544	348,449
LIABILITIES		
Bank indebtedness	458	-
Grants, prizes and author payments payable	72,915	28,751
Accounts payable and accrued liabilities	2,241	2,499
Deferred revenues	7,082	7,061
Employee future benefits	2,675	2,592
Deferred Parliamentary appropriations	18,000	-
Deferred revenues - Externally restricted contributions (Note 5)	41,758	42,956
Total liabilities	145,129	83,859
NET FINANCIAL ASSETS	244,415	264,590
NON-FINANCIAL ASSETS		
Tangible capital assets	7,324	7,524
Art Bank assets	19,425	19,425
Musical instruments	1	1
Prepaid expenses	65	180
Total non-financial assets	26,815	27,130
ACCUMULATED SURPLUS (note 6)	$ 271,230	$ 291,720
Accumulated surplus is comprised of:		
Accumulated surplus from operations	220,085	237,757
Accumulated remeasurement gains	51,145	53,963
ACCUMULATED SURPLUS	$ 271,230	$ 291,720

The accompanying notes and schedules form an integral part of the financial statements

Statement of Operations

(Unaudited)	Yearly Budget	Three months ended June 30	
(in thousands of dollars)	2015-2016	2015	2014
Revenue			
Net realized investment income (Note 7)	$ 8,946	$ 1,058	$ 894
Other revenue	1,107	597	304
Total revenue	10,053	1,655	1,198
Expenses			
Transfer Programs			
Grants, prizes and author payments	154,787	92,915	84,934
Transfer program delivery	17,848	3,954	4,065
Arts community services	2,007	303	558
	174,642	97,172	89,557
Net Art Bank results (Note 6)	222	123	126
Canadian Commission for UNESCO (Note 9)	2,122	538	552
General administration	15,162	3,494	3,620
Total expenses	192,148	101,327	93,855
Deficit from operations before Parliamentary appropriations for the period	(182,095)	(99,672)	(92,657)
Parliamentary appropriations	182,097	82,000	78,000
SURPLUS (DEFICIT) FROM OPERATIONS FOR THE PERIOD	2	(17,672)	(14,657)
ACCUMULATED SURPLUS FROM OPERATIONS, BEGINNING OF PERIOD	-	237,757	234,940
ACCUMULATED SURPLUS FROM OPERATIONS, END OF PERIOD	$ 2	$ 220,085	$ 220,283

Statement of Remeasurement Gains and Losses

(Unaudited)	Three months ended June 30	
(in thousands of dollars)	2015	2014
ACCUMULATED REMEASUREMENT GAINS, BEGINNING OF PERIOD	$ 53,963	$ 39,037
Unrealized gains (losses) attributable to:		
Portfolio investments	(2,818)	3,466
Amounts reclassified to the Statement of Operations:		
Portfolio investments	-	-
NET MEASUREMENT GAINS (LOSSES) FOR THE PERIOD	(2,818)	3,466
ACCUMULATED REMEASUREMENT GAINS, END OF PERIOD	$ 51,145	$ 42,503

The accompanying notes and schedules form an integral part of the financial statements

Statement of Change in Net Financial Assets

(Unaudited)	Three months ended June 30	
(in thousands of dollars)	2015	2014
DEFICIT FROM OPERATIONS FOR THE PERIOD	$ (17,672)	$ (14,657)
Acquisition of tangible capital assets	(22)	(202)
Amortization of tangible capital assets	222	263
	200	61
Acquisition of prepaid expenses	(47)	(503)
Use of prepaid expenses	162	299
	115	(204)
Net remeasurement gains (losses)	(2,818)	3,466
DECREASE IN NET FINANCIAL ASSETS	(20,175)	(11,334)
NET FINANCIAL ASSETS, BEGINNING OF PERIOD	264,590	245,357
NET FINANCIAL ASSETS, END OF PERIOD	$ 244,415	$ 234,023

Statement of Cash Flow

(Unaudited)	Three months ended June 30	
(in thousands of dollars)	2015	2014
Operating Transactions		
Deficit from operations for the period	$ (17,672)	$ (14,657)
Gains from disposal of portfolio investments (Note 7)	(80)	-
Amortization of tangible capital assets	222	263
(Increase) decrease in prepaid expenses	115	(204)
Increase in employee future benefits	83	59
Income transferred from Deferred revenues - Externally restricted contributions to investment income (Note 5)	(263)	(375)
Net change in other non-cash items (Note 10)	62,325	50,434
Cash provided by operating activities	44,730	35,520
Capital Transactions		
Cash used to acquire tangible capital assets	(22)	(202)
Investing Transactions		
Acquisition of portfolio investments	(2,289)	(3,489)
Disposal of portfolio investments	1,548	2,478
Cash used by investing activities	(741)	(1,011)
NET INCREASE IN CASH AND CASH EQUIVALENTS	43,967	34,307
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	1,226	(291)
CASH AND CASH EQUIVALENTS, END OF PERIOD	45,193	34,016
Represented by:		
Cash equivalents	45,651	34,016
Bank indebtedness	(458)	-
	$ 45,193	$ 34,016

The accompanying notes and schedules form an integral part of the financial statements

Notes to the Financial Statements
For the period ended June 30, 2015

(Unaudited)

1. AUTHORITY AND ACTIVITIES

The Canada Council for the Arts (the "Council"), established by the Canada Council Act in 1957 and subsequently amended in 2001 by Bill C-40 to the Canada Council for the Arts Act, is not an agent of Her Majesty and is deemed to be a registered charity for the purposes of the Income Tax Act. In accordance with section 85(1.1) of the Financial Administration Act, the Council is exempt from Divisions I to IV of Part X of this Act, except for subsection 105(2) and sections 113.1 and 119 of Division II, sections 131 to 148 of Division III and section 154.01 of Division IV. The Council is a Crown corporation whose objectives are to foster and promote the study and enjoyment of and the production of works in the arts.

The Council achieves its objectives primarily through grant programs to professional Canadian artists and arts organizations. The Council incurs administration and services expenses in the delivery of programs. Transfer Program delivery expenses represent the direct costs of program delivery. Arts community services expenses represent costs incurred for non-grant activities in fulfillment of the Council's mandate. General administration costs represent the costs related to corporate management, communications, human resources, information management, finance, accommodation and amortization.

The Canadian Commission for UNESCO (CCUNESCO) was established by the Canada Council pursuant to a 1957 Order in Council. The CCUNESCO acts as a forum for governments and civil society to mobilize the participation of Canadians in UNESCO's mandated areas of education, natural and social sciences, and culture, communication and information. The Secretariat for the CCUNESCO is provided by the Canada Council and led by a Secretary General who is part of the Council's Executive Management team.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

These unaudited interim financial statements have been prepared in accordance with Canadian public sector accounting standards (PSAS) as promulgated by the Chartered Professional Accountants (CPA) of Canada.

Basis of preparation

These interim financial statements are intended to provide an update on the latest complete set of audited annual financial statements for the year ended March 31, 2015. Accordingly, they should be read in conjunction with the audited annual financial statements. The interim financial statements are unaudited for all periods presented. The accounting policies used in the preparation of these interim condensed financial statements are consistent with those disclosed in the Council's last audited annual financial statements.

Measurement uncertainty

The preparation of financial statements in accordance with Canadian PSAS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the financial statement date and the reported amounts of revenues and expenses during the reporting year. Employee-related liabilities, the estimated useful lives of tangible capital assets, the residual and appraised value of the Art Bank assets, and the fair value of financial instruments are the most significant items where estimates are used. Actual results could differ from those estimated.

Budgeted figures

Budgeted figures have been provided for comparison purposes and have been approved by the Board.

3. PORTFOLIO INVESTMENTS

	Year-to-date June 30, 2015					Year end March 31, 2015		
	Cost	Unrealized losses	Unrealized gains	Fair value		Cost	Fair value	
(in thousands of dollars)	$	$	$	$	%	$	$	%
Canada Council Endowment and Special Funds								
Pooled funds								
Equity	112,970	-	41,392	154,362	55	112,970	156,036	55
Fixed income	70,750	-	2,842	73,592	26	70,750	75,463	27
Alternatives	20,630	-	6,679	27,309	10	20,630	27,148	10
Money market	5,960	-	-	5,960	2	6,446	6,446	2
Real estate	7,102	60	1,977	9,019	3	7,735	9,525	3
Infrastructure	7,470	119	3,218	10,569	4	5,689	8,596	3
	224,882	179	56,108	280,811	100	224,220	283,214	100
Killam Fund								
Pooled funds								
Equity	23,975	-	9,071	33,046	54	24,095	33,593	55
Fixed income	14,745	-	586	15,331	25	14,745	15,720	26
Alternatives	5,298	-	1,709	7,007	12	5,298	6,965	11
Real estate	1,897	15	545	2,427	4	2,062	2,560	4
Infrastructure	2,006	30	961	2,937	5	1,561	2,439	4
	47,921	45	12,872	60,748	100	47,761	61,277	100
Total investments	272,803	224	68,980	341,559		271,981	344,491	

Unrealized gains/losses on investments are primarily due to the timing of the market prices, foreign exchange movements, or the early years in the business cycle for some investments. Annually, the Council assesses each of its investment instruments against specific criteria to determine whether there is objective evidence that the adjusted cost may not be recovered and is therefore impaired. The Council does not consider these investments to be other-than-temporarily impaired.

The Council manages two separate portfolios, the Canada Council Endowment and Special Funds and the Killam Fund. The Killam will requested that their donation be invested separately. Apart from the Killam Fund, all other externally restricted contributions are consolidated into the Canada Council Endowment and Special Funds and represent 8% (March 31, 2015 - 8%) of that Fund with a total fair value of $22,493,000 (March 31, 2015 - $22,685,000). The total fair value of the externally restricted investment including the Killam Fund is $83,241,000 (March 31, 2015 - $83,962,000).

The long-term objectives of the Canada Council Endowment and Special Funds and the Killam Fund are to generate long-term real returns to supplement the costs of administering the various programs, while maintaining the purchasing power of the endowed capital.

The Council invests in units of equity, fixed income and alternative pooled funds and in limited partnership units of five real estate funds and four infrastructure funds. The permitted and prohibited investments, the asset mix as well as some maximum holding quantity restrictions are governed by a Board approved investment policy to mitigate risk. All of the investments are managed by professional investment managers.

The Council manages its portfolio to the following benchmarks as per the Statement of Investment Policies and Goals approved by the Board. The benchmarks allow asset class allocations to vary between a minimum and a maximum.

Asset Classes	Market Value	Minimum	Benchmark	Maximum
Canadian equities	10%	5%	10%	15%
Global equities	45%	35%	40%	45%
Fixed income	26%	15%	25%	35%
Alternatives	10%	5%	10%	15%
Real estate	5%	0%	7.5%	10%
Infrastructure	4%	0%	7.5%	10%
Money market	2%	0%	0%	10%

The money market asset class includes short-term pooled funds used for future investments in alternatives and capital commitments in limited partnership units of real estate and infrastructure funds. These funds had a balance of $5,960,000 (March 31, 2015 - $6,446,000).

Investments in the equity pooled funds are comprised of units of three pooled funds, one Canadian fund and two funds that are invested in the global equity markets. The Canadian equities are measured against the returns of the Standard and Poor's Toronto Stock Exchange Index. The global equities are measured against the returns of the Morgan Stanley Capital International (MSCI) All Country World Index. Investments in the fixed income pooled fund are comprised of a mix of bonds, mortgages, emerging debt and other fixed income instruments. The fixed income fund is measured against the returns of the DEX Universe Bond Index. Investments in the alternative pooled funds are comprised of units of one hedge fund with diversified positions across global asset classes. This investment is measured against the returns of the Scotia Capital 91-day T-bill plus 4%. The assets included in the real estate funds are commercial real estate properties in Canada, the United States and globally. These investments are measured against the returns of the Investment Property Databank for the Canadian managers and the National Council of Real Estate Investment Fiduciaries (NCREIF) for the US manager. The infrastructure funds include four portfolios of diversified infrastructure investments. These investments are measured against the Consumer Price Index plus 4.5%.

4. FINANCIAL RISKS AND FAIR VALUE

The measurement categories of the Council's financial instruments, as well as their carrying amounts and fair values are as follows:

In thousands of dollars		Year-to-date June 30, 2015	Year-end March 31, 2015
Financial assets and liabilities and classifications	Measurement categories	Carrying amount and fair value ($)	Carrying amount and fair value ($)
Cash equivalents	Fair value	45,651	1,226
Accounts receivable	Amortized cost	2,334	2,732
Portfolio investments[1]	Fair value	341,559	344,491
Bank indebtedness	Fair value	458	-
Grants, prizes and author payments payable	Amortized cost	72,915	28,751
Accounts payable and accrued liabilities	Amortized cost	2,241	2,499

1 The detailed fair value for the investments is listed in Note 3.

a) Establishing fair value

The carrying value of accounts receivable, grants, prizes and author payments payable and accounts payable and accrued liabilities approximates their fair values due to their short-term maturity.

The fair values of the investments are determined as follows:

- Equity, Fixed Income and Money Market pooled fund investments are valued at the unit values supplied by the pooled fund managers, which represent the Council's proportionate share of the underlying net assets at fair values, determined using closing market prices.
- The Alternatives is a pooled fund investment which is valued at the unit values supplied by the pooled fund manager. The fund manager manages multiple funds strategies within the fund and determines the unit's fair value using the closing market prices for some strategies when available or using valuation model with non-observable data for other strategies.
- Real estate investment values are supplied by the fund managers using independently audited appraisals which are based on a valuation model with non-observable data. The independently audited appraisals are obtained annually.
- Infrastructure investment values are supplied by the fund managers using internally determined appraisals. The appraisals are based on a valuation model with non-observable data and are audited annually.

b) Fair value hierarchy

The financial instruments are grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

The following table presents the financial instruments recorded at fair value in the Statement of Financial Position, classified using the fair value hierarchy described above:

Financial assets at fair value

	Year-to-date June 30, 2015				Year-end March 31, 2015			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
(in thousands of dollars)	$	$	$	$	$	$	$	$
Cash equivalents	-	45,651	-	45,651	240	986	-	1,226
	-	45,651	-	45,651	240	986	-	1,226
Portfolio Investments								
Canada Council Endowment and Special Funds								
Pooled Funds								
Equity	-	154,362	-	154,362	-	156,036	-	156,036
Fixed Income	-	73,592	-	73,592	-	75,463	-	75,463
Alternatives	-	-	27,309	27,309	-	-	27,148	27,148
Money Market	-	5,960	-	5,960	-	6,446	-	6,446
Real Estate	-	-	9,019	9,019	-	-	9,525	9,525
Infrastructure	-	-	10,569	10,569	-	-	8,596	8,596
Killam Fund								
Pooled Funds								
Equity	-	33,046	-	33,046	-	33,593	-	33,593
Fixed Income	-	15,331	-	15,331	-	15,720	-	15,720
Alternatives	-	-	7,007	7,007	-	-	6,965	6,965
Real Estate	-	-	2,427	2,427	-	-	2,560	2,560
Infrastructure	-	-	2,937	2,937	-	-	2,439	2,439
	-	282,291	59,268	341,559	-	287,258	57,233	344,491
Total	-	327,942	59,268	387,210	240	288,244	57,233	345,717

Financial liabilities at fair value

	Year-to-date June 30, 2015				Year-end March 31, 2015			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
(in thousands of dollars)	$	$	$	$	$	$	$	$
Bank indebtedness	458	-	-	458	-	-	-	-
Total	458	-	-	458	-	-	-	-

5. DEFERRED REVENUES - EXTERNALLY RESTRICTED CONTRIBUTIONS

The deferred revenues from externally restricted contributions consist of accumulated income received which has been deferred until the resources have been used for the purpose or purposes specified by the endowment. The restricted endowment principal of $37,569,000 is required to be maintained intact and is reported under accumulated surplus from operations (see Note 6).

(in thousands of dollars)	Year-to-date June 30, 2015	Year-end March 31, 2015
Balance, beginning of period	$ 42,956	$ 37,097
Transferred from (to) investment income (Note 7)		
Net investment income	267	4,247
Use of funds	(530)	(2,324)
	(263)	1,923
Unrealized gains (losses) on portfolio investment	(851)	5,664
Reclassified to statement of operations - portfolio	(84)	(1,728)
Balance at end of period	$ 41,758	$ 42,956

The unrealized gains and losses on portfolio investment are related to the change in fair value of those assets from the previous period.

6. ACCUMULATED SURPLUS

(in thousands of dollars)	Year-to-date June 30, 2015		Year-end March 31, 2015	
Accumulated surplus from operations				
Endowment - Original contribution		$ 50,000		$ 50,000
Endowment principal – Externally restricted contributions		37,569		37,569
Reserve for excess investment income				
Balance at beginning of the period	124,445		122,445	
Appropriated from the accumulated surplus during the period	-		2,000	
Balance at end of the period		124,445		124,445
Surplus				
Balance at beginning of the period	25,743		24,926	
Appropriated to the reserve for excess investment income during the period	-		(2,000)	
Surplus (deficit) for the period	(17,672)		2,817	
Balance at end of the period		8,071		25,743
Total accumulated surplus from operations		220,085		237,757
Accumulated remeasurement gains				
Balance at beginning of the period	53,963		39,037	
Change in fair value	(2,818)		14,926	
Balance at end of the period		51,145		53,963
Balance of accumulated surplus at end of period		$ 271,230		$ 291,720

7. NET REALIZED INVESTMENT INCOME

(in thousands of dollars)	Three months ended June 30	
	2015	2014
Gains from disposal of portfolio investments	$ 80	$ -
Income transferred from deferred revenues -		
Externally restricted contributions (Note 5)	263	375
Net losses on foreign exchanges	(11)	(2)
Interest and dividend income	1,167	956
Investment portfolio management costs	(441)	(435)
	$ 1,058	$ 894

8. NET ART BANK RESULTS

(in thousands of dollars)	Three months ended June 30	
	2015	2014
Rental revenue	$ 308	$ 314
Other income	35	35
Administration expense	(463)	(470)
Amortization of other capital assets	(3)	(5)
	$ (123)	$ (126)

9. CANADIAN COMMISSION FOR UNESCO

(in thousands of dollars)	Three months ended June 30	
	2015	2014
Program expenses	$ 255	$ 282
Program - contributions received	(9)	(3)
Administration expense	292	273
	$ 538	$ 552

10. NET CHANGE IN OTHER NON CASH ITEMS

(in thousands of dollars)	Three months ended June 30	
	2015	2014
Decrease in accounts receivable	$ 398	$ 1,814
Increase in grants, prizes and author payments payable	44,164	31,146
Decrease in accounts payable and accrued liabilities	(258)	(1,459)
Increase (decrease) in deferred revenues	21	(67)
Increase in deferred Parliamentary appropriations	18,000	19,000
Net change	$ 62,325	$ 50,434

11. RELATED PARTY TRANSACTIONS

The Council is related in terms of common ownership to all Government of Canada departments, agencies and Crown corporations. The Council enters into transactions with related parties in the normal course of business on normal trade terms applicable to all individuals and enterprises, and these transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.